



# United States Department of the Interior

OFFICE OF THE ASSISTANT SECRETARY  
POLICY, MANAGEMENT AND BUDGET  
Washington, D.C. 20240

JUN 30 2003

## MEMORANDUM

TO: Heads of Bureaus  
Chief Financial Officers  
Departmental Offices

FROM: P. Lynn Scarlett   
Assistant Secretary - Policy, Management and Budget

SUBJECT: Program Managers Guide to Financial Audits

As you know, the Department intends to complete the annual financial statement audit process for FY 2003 by November 15, 2003. It is very important that the Department make every effort to complete the process by November 15, 2003, since completing the process will be required for FY 2004 reporting. Completing the financial statement audit process is not just a responsibility of finance office staff; it requires staff throughout the Department to work together. One critical group necessary for the process to be successful is bureau program managers. To assist program managers in understanding the audit process and their responsibilities in coordination with other offices, we have developed a brochure titled, "Program Managers Guide to Financial Audits." A copy of the brochure is attached.

I think you will find this brochure to be helpful in communicating to program managers their responsibilities in completing the financial statement audit process on a timely basis. I encourage you to circulate this throughout your bureau. It is also available on the Office of Financial Management website <http://www.doi.gov/pfm/finstate.html>.

Your support and leadership are required to complete the 2003 audit by November 15, 2003. Questions about this memorandum may be directed to Nina Hatfield, (202) 208-7966.

## Key Dates for FY 2003

❖ Preliminary Performance Data:	9/15/03
❖ Final Trial Balance Information	
Provided to Auditors :	10/8/03
❖ Final Performance Data:	10/10/03
❖ Final Bureau Annual Reports	
Provided to Auditors:	10/17/03
❖ Audit Opinion Issued:	11/15/03

## Key Terms and Concepts

### Objectives of Financial Statement Audits

- ❖ Financial statement audits provide reasonable assurance that the financial statements present fairly the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles (GAAP). In addition, the audit determines compliance with financial laws and regulations and compliance with internal control procedures.
- ❖ The audit process is a basic management and oversight tool to ensure the best performance and highest measure of accountability.

### Unqualified (clean) Audit opinion

A clean opinion means the Office of Inspector General and/or an outside audit firm has audited our financial statements and can attest that they present fairly, in all material respects, our total revenue, assets, liabilities, net position, and budgetary resources.

### Report on Internal Controls

The auditors obtain an understanding of the components of internal control, test the design of the controls, and if designed properly, test the operating effectiveness of the controls and report on the findings. The following internal controls are included:

- ❖ Financial reporting controls (including EDP controls).
- ❖ Compliance controls for each key provision of laws and regulations.
- ❖ Budget controls for each relevant budget restriction.
- ❖ Operations controls for each operations control relied upon.

- ❖ Performance measure control for performance measures disclosed in the MD&A.

The report identifies reportable conditions and material weaknesses.

*Reportable conditions* are significant deficiencies in the design or operation of internal controls that could adversely affect DOI's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

*Material weaknesses* are reportable conditions that have a higher level of risk of a material misstatement in the financial statements.

### Report on Compliance with Laws and Regulations

The auditors test compliance of laws and regulations that have a direct and material effect on the financial statements and supplementary information, including laws governing budget authority, and any other laws, regulations, and government-wide policies identified in Appendix C of OMB Bulletin 01-02.

In addition, auditors will test DOI's compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA), section 803(a) requirements and report on their findings. This includes whether DOI financial management systems comply with: (1) federal financial management system standards, (2) applicable federal accounting standards; and (3) the standard general ledger at the transaction level.

### Auditor Responsibilities

- ❖ Plan and complete the audit in accordance with Government Auditing Standards, issued by the Comptroller General of the U.S. and OMB.
- ❖ Issue a combined report including an opinion on the financial statements; results of consideration of internal controls; and tests of compliance with laws and regulations.

### Management Responsibilities

Management's responsibilities directly impact the results of the audit and require the coordination among Departmental, programs, performance, and financial management.

# PROGRAM MANAGERS GUIDE TO FINANCIAL STATEMENT AUDITS

**Purpose of Guide:** *The purpose of this document is to explain the financial statement audit process and related roles and responsibilities.*

## Why are Program Managers important to the Financial Statement Audit Process?

- ❖ *Program Managers are on the frontline for producing accurate financial information necessary to meet the Department's strategic goal of maintaining an unqualified financial statement audit opinion.*
- ❖ *Achieving an unqualified audit opinion is part of the President's government-wide management agenda for improving financial management and supports the Secretary of Interior's objective to establish clear performance measures and hold Department of Interior (DOI) managers and employees accountable for results.*
- ❖ *Program Offices are the source of most of the day-to-day accounting activities and are responsible for most of DOI's assets reviewed during the audit.*
- ❖ *Program Managers demonstrate their accountability through the audit process that assures Congress and the Office of Management and Budget (OMB) that information reported is accurate and internal controls are maintained over the resources provided to carry out their mission.*
- ❖ *Program Managers include their performance results and programmatic information in the annual report to help those who use the financial statements understand the financial condition and results of operations of the Department and its Bureaus.*

## **What is the Audit Process?**

The audit process is designed to maintain a channel of communication between the auditors and management officials. The following is the audit process:

- ❖ Entrance Conference – auditors give a description of the audit scope and objectives; discuss time frames, access to records and personnel, introduce the audit team, and consider management’s suggestions on additional areas to include in the audit.
- ❖ Performing the audit – auditors survey program activities to obtain background information; complete audit verification which is a comprehensive review of selected areas of a program, activity, or function; and complete field work by interviewing audited staff and reviewing, analyzing, and documenting relevant information.
- ❖ Keeping management informed – through discussions/meetings, auditors discuss routine audit findings to clearly understand the facts and circumstances and provide the auditee early notice of deficiencies so management can take immediate corrective action. The auditor may schedule formal briefings depending on the significance of the issue.
- ❖ Exit Conference – communicates audit results to management and obtains management’s comments on proposed findings and recommendations.
- ❖ Audit Report – prepare draft and final reports.
- ❖ Audit Resolution – implement agreed upon corrective actions.

## **What are Financial Statement and Audit Related Responsibilities?**

### **Program Manager/Field Location and Oversight Organizations Responsibilities**

- ❖ Process transactions accurately, timely, and enter properly into the accounting system; i.

e., payroll, cash receipts, purchase and charge card transactions.

- ❖ Maintain complete documentation to support transactions for ready review by management and auditors.
- ❖ Review charge card purchases to identify misuse, fraud, and delinquency.
- ❖ Review travel claims for authorized travel and approve promptly.
- ❖ Review unliquidated obligations (undelivered orders) quarterly and document any transactions more than 365 days. Remove invalid obligations.
- ❖ Issue reimbursable agreements including the required data elements for intra-government transactions.
- ❖ Assist in preparing a draft annual report.
- ❖ Assist Finance Offices in clearing suspense accounts, monthly.
- ❖ Assist Finance Offices in recording receivables and issuing bills promptly.
- ❖ Account for assets including promptly and accurately recording acquisitions, deletions, and transfers of property in the accounting records and assisting in booking depreciation.
- ❖ Maintain control of administrative funds.
- ❖ Record costs properly according to Activity Based Costing (ABC) requirements.
- ❖ Follow financial policies and year-end financial closing instructions and due dates.
- ❖ Collect performance management information quarterly and provide performance data annually.
- ❖ Provide financial training to employees.

### **Performance Management Responsibilities**

- ❖ Prepare the performance reporting for the Bureau/Department in coordination with the Finance Offices.

### **Department Management Responsibilities**

- ❖ Prepare the Accountability Report and consolidated financial statements for DOI, subject to audit.
- ❖ Prepare and submit quarterly financial statements to OMB and management.
- ❖ Provide overall coordination of the financial statement audit.

- ❖ Establish and issue financial policy for DOI, implement Federal Accounting Standards Advisory Board (FASAB) standards, and OMB and U.S. Department of Treasury (Treasury) directives.
- ❖ Submit data to Treasury in support of the Consolidated Financial Statements for the Federal Government.
- ❖ Summarize data for the President’s budget.
- ❖ Provide guidance, interpretation, and application of financial standards and policy.

### **Bureau Finance Office Responsibilities**

- ❖ Bureau Heads, CFOs and Finance Officers certify the accuracy and completeness of financial information and presentation of quarterly and annual financial statements according to applicable standards, including accurate and timely adjustments, accruals, and footnotes.
- ❖ Maintain the internal control environment to ensure accuracy and integrity to financial data maintained in the core accounting and related financial management systems.
- ❖ Perform reconciliations monthly; i.e., cash balances with Treasury, subsidiary to general ledger, budgetary to proprietary, etc.
- ❖ Review suspense accounts and clear abnormal balances.
- ❖ Ensure that vendor codes are accurate and reflect the correct trading partners and attributes.
- ❖ Reconcile intra-governmental transactions quarterly.
- ❖ Review receivables and loans for accuracy quarterly, update allowances for uncollectible accounts receivables, and write off bad debts.
- ❖ Refer delinquent debt to Treasury within 180 days.
- ❖ Review budget execution data with Bureau budget offices and submit to Treasury timely.
- ❖ Implement quarterly and year-end reporting instructions from DOI, Treasury, and OMB.
- ❖ Prepare quarterly and annual financial statements on a timely basis.